

OWENS ILLINOIS INC /DE/  
Form 10-Q  
April 24, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D. C. 20549**

**FORM 10-Q**

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-9576

## OWENS-ILLINOIS, INC.

(Exact name of registrant as specified in its charter)

|  |  |
|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of incorporation or organization)          | <b>22-2781933</b><br>(IRS Employer Identification No.) |
| <b>One Michael Owens Way, Perrysburg, Ohio</b><br>(Address of principal executive offices) | <b>43551</b><br>(Zip Code)                             |

Registrant's telephone number, including area code: **(567) 336-5000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of common stock, par value \$.01, of Owens-Illinois, Inc. outstanding as of March 31, 2013 was 164,494,763.



Part I FINANCIAL INFORMATION

**Item 1. Financial Statements.**

The Condensed Consolidated Financial Statements of Owens-Illinois, Inc. (the "Company") presented herein are unaudited but, in the opinion of management, reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. All adjustments are of a normal recurring nature. Because the following unaudited condensed consolidated financial statements have been prepared in accordance with Article 10 of Regulation S-X, they do not contain all information and footnotes normally contained in annual consolidated financial statements; accordingly, they should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

|   | Three months ended March 31, |          |
|---|------------------------------|----------|
|   | 2013                         | 2012     |
| Net sales   | \$ 1,641                     | \$ 1,739 |
| Manufacturing, shipping and delivery expense            | (1,322)                      | (1,361)  |
| Gross profit  | 319                          | 378      |
| Selling and administrative expense                      | (129)                        | (140)    |
| Research, development and engineering expense           | (15)                         | (15)     |
| Interest expense  | (71)                         | (64)     |
| Interest income   | 3                            | 3        |
| Equity earnings   | 17                           | 13       |
| Royalties and net technical assistance                  | 4                            | 4        |
| Other income  | 3                            | 2        |
| Other expense   | (14)                         | (11)     |
| Earnings from continuing operations before income taxes | 117                          | 170      |
| Provision for income taxes                              | (33)                         | (44)     |
| Earnings from continuing operations                     | 84                           | 126      |
| Loss from discontinued operations                       | (10)                         | (1)      |
| Net earnings  | 74                           | 125      |
| Net earnings attributable to noncontrolling interests   | (5)                          | (4)      |
| Net earnings attributable to the Company                | \$ 69                        | \$ 121   |
| Amounts attributable to the Company:                    |                              |          |
| Earnings from continuing operations                     | \$ 79                        | \$ 122   |
| Loss from discontinued operations                       | (10)                         | (1)      |
| Net earnings  | \$ 69                        | \$ 121   |
| Basic earnings per share:                               |                              |          |
| Earnings from continuing operations                     | \$ 0.48                      | \$ 0.74  |
| Loss from discontinued operations                       | (0.06)                       | (0.01)   |
| Net earnings  | \$ 0.42                      | \$ 0.73  |
| Weighted average shares outstanding (thousands)         | 164,069                      | 164,241  |
| Diluted earnings per share:                             |                              |          |
| Earnings from continuing operations                     | \$ 0.48                      | \$ 0.73  |
| Loss from discontinued operations                       | (0.06)                       | (0.01)   |
| Net earnings  | \$ 0.42                      | \$ 0.72  |
| Weighted average diluted shares outstanding (thousands) | 165,501                      | 166,206  |

See accompanying notes.



OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

|  | Three months ended March 31, |        |
|--|------------------------------|--------|
|  | 2013                         | 2012   |
| Net earnings   | \$ 74                        | \$ 125 |
| Other comprehensive income:                                      |                              |        |
| Foreign currency translation adjustments                         | (32)                         | 99     |
| Pension and other postretirement benefit adjustments, net of tax | 45                           | 24     |
| Change in fair value of derivative instruments                   | 4                            |        |
| Other comprehensive income                                       | 17                           | 123    |
| Total comprehensive income                                       | 91                           | 248    |
| Comprehensive income attributable to noncontrolling interests    | (1)                          | (11)   |
| Comprehensive income attributable to the Company                 | \$ 90                        | \$ 237 |

See accompanying notes.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

|   | March 31,<br>2013 | December 31,<br>2012 | March 31,<br>2012 |
|---|-------------------|----------------------|-------------------|
| <b>Assets</b>   |                   |                      |                   |
| Current assets:   |                   |                      |                   |
| Cash and cash equivalents   | \$ 359            | \$ 431               | \$ 299            |
| Receivables, less allowances for losses and discounts (\$41 at March 31, 2013, \$41 at December 31, 2012, and \$42 at March 31, 2012) | 1,047             | 968                  | 1,199             |
| Inventories   | 1,178             | 1,139                | 1,237             |
| Prepaid expenses  | 99                | 110                  | 130               |
| Total current assets  | 2,683             | 2,648                | 2,865             |
| Investments and other assets:   |                   |                      |                   |
| Equity investments  | 293               | 294                  | 316               |
| Repair parts inventories  | 137               | 133                  | 153               |
| Pension assets  |                   |                      | 121               |
| Other assets  | 676               | 675                  | 695               |
| Goodwill  | 2,048             | 2,079                | 2,127             |
| Total other assets  | 3,154             | 3,181                | 3,412             |
| Property, plant and equipment, at cost  | 6,509             | 6,667                | 7,049             |
| Less accumulated depreciation   | 3,829             | 3,898                | 4,165             |
| Net property, plant and equipment   | 2,680             | 2,769                | 2,884             |
| Total assets  | \$ 8,517          | \$ 8,598             | \$ 9,161          |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

CONDENSED CONSOLIDATED BALANCE SHEETS Continued

|   | March 31,<br>2013 | December 31,<br>2012 | March 31,<br>2012 |
|---|-------------------|----------------------|-------------------|
| <b>Liabilities and Share Owners Equity</b>  |                   |                      |                   |
| Current liabilities:  |                   |                      |                   |
| Short-term loans and long-term debt due within one year   | \$ 347            | \$ 319               | \$ 406            |
| Current portion of asbestos-related liabilities   | 155               | 155                  | 165               |
| Accounts payable  | 904               | 1,032                | 943               |
| Other liabilities   | 523               | 656                  | 602               |
| Total current liabilities   | 1,929             | 2,162                | 2,116             |
| Long-term debt  | 3,550             | 3,454                | 3,724             |
| Deferred taxes  | 184               | 182                  | 214               |
| Pension benefits  | 825               | 846                  | 856               |
| Nonpension postretirement benefits  | 262               | 264                  | 270               |
| Other liabilities   | 323               | 329                  | 410               |
| Asbestos-related liabilities  | 289               | 306                  | 276               |
| Commitments and contingencies   |                   |                      |                   |
| Share owners equity:  |                   |                      |                   |
| Share owners equity of the Company:   |                   |                      |                   |
| Common stock, par value \$.01 per share, 250,000,000 shares authorized, 182,355,917, 181,865,751, and 181,658,637 shares issued (including treasury shares), respectively | 2                 | 2                    | 2                 |
| Capital in excess of par value  | 3,013             | 3,005                | 2,996             |
| Treasury stock, at cost, 17,861,154, 17,901,925, and 16,732,262 shares, respectively  | (424)             | (425)                | (404)             |
| Retained loss   | (126)             | (195)                | (258)             |
| Accumulated other comprehensive loss  | (1,485)           | (1,506)              | (1,205)           |
| Total share owners equity of the Company  | 980               | 881                  | 1,131             |
| Noncontrolling interests  | 175               | 174                  | 164               |
| Total share owners equity   | 1,155             | 1,055                | 1,295             |
| Total liabilities and share owners equity   | \$ 8,517          | \$ 8,598             | \$ 9,161          |

See accompanying notes.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

|   | Three months ended March 31, |        |
|---|------------------------------|--------|
|   | 2013                         | 2012   |
| Cash flows from operating activities:                 |                              |        |
| Net earnings  | \$ 74                        | \$ 125 |
| Loss from discontinued operations                     | 10                           | 1      |
| Non-cash charges (credits):                           |                              |        |
| Depreciation  | 90                           | 97     |
| Amortization of intangibles and other deferred items  | 9                            | 8      |
| Amortization of finance fees and debt discount        | 8                            | 8      |
| Pension expense                                       | 26                           | 22     |
| Restructuring, asset impairment and related charges   | 10                           |        |
| Other   | 31                           | 10     |
| Pension contributions                                 | (7)                          | (17)   |
| Asbestos-related payments                             | (17)                         | (30)   |
| Cash paid for restructuring activities                | (34)                         | (30)   |
| Change in non-current assets and liabilities          | (33)                         | (13)   |
| Change in components of working capital               | (301)                        | (275)  |
| Cash utilized in continuing operating activities      | (134)                        | (94)   |
| Cash utilized in discontinued operating activities    | (2)                          | (1)    |
| Total cash utilized in operating activities           | (136)                        | (95)   |
| Cash flows from investing activities:                 |                              |        |
| Additions to property, plant and equipment            | (94)                         | (73)   |
| Acquisitions, net of cash acquired                    |                              | (5)    |
| Net cash proceeds related to sale of assets and other |                              | 11     |
| Cash utilized in investing activities                 | (94)                         | (67)   |
| Cash flows from financing activities:                 |                              |        |
| Additions to long-term debt                           | 639                          | 119    |
| Repayments of long-term debt                          | (483)                        | (62)   |
| Increase (decrease) in short-term loans               | 4                            | (20)   |
| Net receipts for hedging activity                     |                              | 8      |
| Payment of finance fees                               | (5)                          |        |
| Issuance of common stock and other                    | 4                            |        |
| Cash provided by financing activities                 | 159                          | 45     |
| Effect of exchange rate fluctuations on cash          | (1)                          | 16     |
| Decrease in cash                                      | (72)                         | (101)  |
| Cash at beginning of period                           | 431                          | 400    |
| Cash at end of period                                 | \$ 359                       | \$ 299 |

See accompanying notes.

## OWENS-ILLINOIS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Tabular data dollars in millions, except per share amounts

**1. Segment Information**

The Company has four reportable segments based on its four geographic locations: Europe, North America, South America and Asia Pacific. These four segments are aligned with the Company's internal approach to managing, reporting, and evaluating performance of its global glass operations. Certain assets and activities not directly related to one of the regions or to glass manufacturing are reported with Retained corporate costs and other. These include licensing, equipment manufacturing, global engineering, and non-glass equity investments. Retained corporate costs and other also includes certain headquarters administrative and facilities costs and certain incentive compensation and other benefit plan costs that are global in nature and are not allocable to the reportable segments.

The Company's measure of profit for its reportable segments is segment operating profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations as well as certain retained corporate costs. The Company's management uses segment operating profit, in combination with net sales and selected cash flow information, to evaluate performance and to allocate resources. Segment operating profit for reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided.

Financial information for the three-month periods ended March 31, 2013 and 2012 regarding the Company's reportable segments is as follows:

|                           | 2013     | 2012     |
|---------------------------|----------|----------|
| Net sales:                |          |          |
| Europe                    | \$ 650   | \$ 705   |
| North America             | 469      | 482      |
| South America             | 269      | 277      |
| Asia Pacific              | 247      | 257      |
| Reportable segment totals | 1,635    | 1,721    |
| Other                     | 6        | 18       |
| Net sales                 | \$ 1,641 | \$ 1,739 |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

|   | 2013   | 2012   |
|---|--------|--------|
| <b>Segment operating profit:</b>                        |        |        |
| Europe  | \$ 59  | \$ 108 |
| North America   | 74     | 78     |
| South America   | 53     | 38     |
| Asia Pacific  | 40     | 36     |
| Reportable segment totals                               | 226    | 260    |
| <b>Items excluded from segment operating profit:</b>    |        |        |
| Retained corporate costs and other                      | (31)   | (29)   |
| Restructuring, asset impairment and related charges     | (10)   |        |
| Interest income   | 3      | 3      |
| Interest expense  | (71)   | (64)   |
| Earnings from continuing operations before income taxes | \$ 117 | \$ 170 |

Financial information regarding the Company's total assets is as follows:

|                           | March 31,<br>2013 | December 31,<br>2012 | March 31,<br>2012 |
|---------------------------|-------------------|----------------------|-------------------|
| <b>Total assets:</b>      |                   |                      |                   |
| Europe                    | \$ 3,263          | \$ 3,362             | \$ 3,744          |
| North America             | 2,030             | 1,994                | 2,056             |
| South America             | 1,638             | 1,655                | 1,724             |
| Asia Pacific              | 1,294             | 1,349                | 1,359             |
| Reportable segment totals | 8,225             | 8,360                | 8,883             |
| Other                     | 292               | 238                  | 278               |
| Consolidated totals       | \$ 8,517          | \$ 8,598             | \$ 9,161          |

## 2. Inventories

Major classes of inventory are as follows:

|                       | March 31,<br>2013 | December 31,<br>2012 | March 31,<br>2012 |
|-----------------------|-------------------|----------------------|-------------------|
| <b>Finished goods</b> |                   |                      |                   |
|                       | \$ 1,014          | \$ 957               | \$ 1,061          |
| Raw materials         | 124               | 137                  | 126               |
| Operating supplies    | 40                | 45                   | 50                |
|                       | \$ 1,178          | \$ 1,139             | \$ 1,237          |

## 3. Derivative Instruments

The Company has certain derivative assets and liabilities which consist of natural gas forwards and foreign exchange option and forward contracts. The Company uses an income approach to valuing these contracts. Natural gas forward rates and foreign exchange rates are the

**Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q**

significant inputs into the valuation models. These inputs are observable in active markets over the terms of the instruments the Company holds, and accordingly, the Company classifies its derivative assets and liabilities as Level 2 in the hierarchy. The Company also evaluates counterparty risk in determining fair values.

---

*Commodity Futures Contracts Designated as Cash Flow Hedges*

In North America, the Company enters into commodity futures contracts related to forecasted natural gas requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. The Company continually evaluates the natural gas market and related price risk and periodically enters into commodity futures contracts in order to hedge a portion of its usage requirements. The majority of the sales volume in North America is tied to customer contracts that contain provisions that pass the price of natural gas to the customer. In certain of these contracts, the customer has the option of fixing the natural gas price component for a specified period of time. At March 31, 2013 and 2012, the Company had entered into commodity futures contracts covering approximately 6,200,000 MM BTUs and 4,600,000 MM BTUs, respectively, primarily related to customer requests to lock the price of natural gas.

The Company accounts for the above futures contracts as cash flow hedges at March 31, 2013 and recognizes them on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in the Accumulated Other Comprehensive Income component of share owners' equity ( OCI ) and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. At March 31, 2013 and 2012, an unrecognized gain of \$2 million and an unrecognized loss of \$6 million, respectively, related to the commodity futures contracts was included in Accumulated OCI, and will be reclassified into earnings over the next twelve to twenty-four months. Any material portion of the change in the fair value of a derivative designated as a cash flow hedge that is deemed to be ineffective is recognized in current earnings. The ineffectiveness related to these natural gas hedges for the three months ended March 31, 2013 and 2012 was not material.

The effect of the commodity futures contracts on the results of operations for the three months ended March 31, 2013 and 2012 is as follows:

| Amount of Gain (Loss)<br>Recognized in OCI on<br>Commodity Futures Contracts<br>(Effective Portion) |        | Amount of Loss<br>Reclassified from<br>Accumulated OCI into<br>Income (reported in<br>manufacturing, shipping, and<br>delivery) (Effective Portion) |        |
|---|--------|---|--------|
| 2013  | 2012   | 2013  | 2012   |
| \$ 3  | \$ (3) | \$ (1)  | \$ (3) |

*Forward Exchange Contracts not Designated as Hedging Instruments*

The Company's subsidiaries may enter into short-term forward exchange or option agreements to purchase foreign currencies at set rates in the future. These agreements are used to limit exposure to fluctuations in foreign currency exchange rates for significant planned purchases of fixed assets or commodities that are denominated in currencies other than the subsidiaries' functional currency. Subsidiaries may also use forward exchange agreements to offset the foreign currency risk for receivables and payables, including intercompany receivables and payables, not denominated in, or indexed to, their functional currencies. The Company records these short-term forward exchange agreements on the balance sheet at fair value and changes in the fair value are recognized in current earnings.

At March 31, 2013 and 2012, various subsidiaries of the Company had outstanding forward exchange and option agreements denominated in various currencies covering the equivalent of approximately \$900 million and \$640 million, respectively, related primarily to intercompany transactions and loans.

The effect of the forward exchange contracts on the results of operations for the three months ended March 31, 2013 and 2012 is as follows:

| Location of Gain (Loss)<br>Recognized in Income on<br>Forward Exchange Contracts | Amount of Gain (Loss)<br>Recognized in Income on<br>Forward Exchange Contracts |      |
|--|--|------|
|  | 2013   | 2012 |
| Other expense  | \$ (3)   | \$ 1 |

*Balance Sheet Classification*

The Company records the fair values of derivative financial instruments on the balance sheet as follows: (a) receivables if the instrument has a positive fair value and maturity within one year, (b) deposits, receivables, and other assets if the instrument has a positive fair value and maturity after one year, (c) other accrued liabilities or other liabilities (current) if the instrument has a negative fair value and maturity within one year, and (d) other liabilities if the instrument has a negative fair value and maturity after one year. The following table shows the amount and classification (as noted above) of the Company's derivatives:

|   | Balance<br>Sheet<br>Location | March 31,<br>2013 | Fair Value<br>December 31,<br>2012 | March 31,<br>2012 |
|---|------------------------------|-------------------|------------------------------------|-------------------|
| <b>Asset Derivatives:</b>                               |                              |                   |                                    |                   |
| Derivatives designated as hedging instruments:          |                              |                   |                                    |                   |
| Commodity futures contracts                             | a                            | \$ 2              | \$ 2                               | \$ 2              |
| Derivatives not designated as hedging instruments:      |                              |                   |                                    |                   |
| Foreign exchange contracts                              | a                            | 3                 | 4                                  | 8                 |
| Foreign exchange contracts                              | c                            | 1                 | 1                                  | 1                 |
| Total derivatives not designated as hedging instruments |                              | 4                 | 4                                  | 9                 |
| Total asset derivatives                                 |                              | \$ 4              | \$ 4                               | \$ 9              |
| <b>Liability Derivatives:</b>                           |                              |                   |                                    |                   |
| Derivatives designated as hedging instruments:          |                              |                   |                                    |                   |
| Commodity futures contracts                             | c                            | \$ 1              | \$ 1                               | \$ 6              |
| Derivatives not designated as hedging instruments:      |                              |                   |                                    |                   |
| Foreign exchange contracts                              | c                            | 8                 | 9                                  | 4                 |
| Total liability derivatives                             |                              | \$ 8              | \$ 10                              | \$ 10             |

#### 4. Restructuring Accruals

Selected information related to the restructuring accruals for the first three months of 2013 and 2012 is as follows:

|   | European<br>Asset<br>Optimization | Asia Pacific<br>Restructuring | Other<br>Restructuring<br>Actions | Total<br>Restructuring |
|---|-----------------------------------|-------------------------------|-----------------------------------|------------------------|
| Balance at January 1, 2013                                | \$ 53                             | \$ 6                          | \$ 64                             | \$ 123                 |
| First quarter 2013 charges                                | 7                                 | 2                             | 1                                 | 10                     |
| Write-down of assets to net realizable value              | (2)                               |                               |                                   | (2)                    |
| Net cash paid, principally severance and related benefits | (20)                              | (4)                           | (10)                              | (34)                   |
| Other, including foreign exchange translation             | (1)                               |                               | (1)                               | (2)                    |
| Balance at March 31, 2013                                 | \$ 37                             | \$ 4                          | \$ 54                             | \$ 95                  |
|   |                                   |                               |                                   |                        |
| Balance at January 1, 2012                                | \$ 37                             | \$ 17                         | \$ 49                             | \$ 103                 |
| Net cash paid, principally severance and related benefits | (2)                               | (11)                          | (17)                              | (30)                   |
| Other, including foreign exchange translation             |                                   |                               | 3                                 | 3                      |
| Balance at March 31, 2012                                 | \$ 35                             | \$ 6                          | \$ 35                             | \$ 76                  |

The Company's decisions to curtail selected production capacity have resulted in write downs of certain long-lived assets to the extent their carrying amounts exceeded fair value or fair value less cost to sell. The Company classified the significant assumptions used to determine the fair value of the impaired assets, which was not material, as Level 3 in the fair value hierarchy as set forth in the general accounting principles for fair value measurements.

#### 5. Pensions Benefit Plans and Other Postretirement Benefits

The components of the net periodic pension cost for the three months ended March 31, 2013 and 2012 are as follows:

|                           | 2013  | U.S.  | 2012  | 2013 | Non-U.S. | 2012 |
|---------------------------|-------|-------|-------|------|----------|------|
| Service cost              | \$ 7  | \$ 7  | \$ 7  | \$ 8 | \$ 7     |      |
| Interest cost             | 27    |       | 28    | 17   |          | 19   |
| Expected asset return     | (46)  |       | (46)  | (23) |          | (22) |
| Amortization:             |       |       |       |      |          |      |
| Actuarial loss            | 28    |       | 24    | 8    |          | 5    |
| Net periodic pension cost | \$ 16 | \$ 13 | \$ 10 | \$ 9 |          |      |

The U.S. pension expense excludes \$8 million of special termination benefits that were recorded in discontinued operations in 2013.



Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

The components of the net postretirement benefit cost for the three months ended March 31, 2013 and 2012 are as follows:

|                                 | U.S. |      | Non-U.S. |      |
|---------------------------------|------|------|----------|------|
|                                 | 2013 | 2012 | 2013     | 2012 |
| Service cost                    | \$   | \$   | 1        | \$   |
| Interest cost                   |      | 1    | 2        | 1    |
| Amortization:                   |      |      |          |      |
| Prior service credit            |      | (1)  | (1)      |      |
| Actuarial loss                  |      | 2    | 1        |      |
| Net amortization                |      | 1    |          |      |
| Net postretirement benefit cost | \$   | 2    | \$       | 3    |
|                                 |      |      |          | 1    |

## 6. Income Taxes

The Company performs a quarterly review of the annual effective tax rate and makes changes if necessary based on new information or events. The estimated annual effective tax rate is forecasted quarterly using actual historical information and forward-looking estimates. The estimated annual effective tax rate may fluctuate due to changes in forecasted annual operating income; changes in the forecasted mix of earnings by country; changes to the valuation allowance for deferred tax assets (such changes would be recorded discretely in the quarter in which they occur); changes to actual or forecasted permanent book to tax differences (non-deductible expenses); impacts from future tax settlements with state, federal or foreign tax authorities (such changes would be recorded discretely in the quarter in which they occur); or impacts from tax law changes. To the extent such changes impact deferred tax assets/liabilities, these changes would generally be recorded discretely in the quarter in which they occur. Additionally, the annual effective tax rate differs from the statutory U.S. Federal tax rate of 35% primarily because of valuation allowances in some jurisdictions and varying non-U.S. tax rates.

## 7. Debt

The following table summarizes the long-term debt of the Company:

|   | March 31,<br>2013 | December 31,<br>2012 | March 31,<br>2012 |
|---|-------------------|----------------------|-------------------|
| <b>Secured Credit Agreement:</b>                |                   |                      |                   |
| Revolving Credit Facility:                      |                   |                      |                   |
| Revolving Loans                                 | \$ 126            | \$ 53                | \$ 55             |
| Term Loans:                                     |                   |                      |                   |
| Term Loan A (51 million AUD at March 31, 2013)  | 53                | 53                   | 177               |
| Term Loan B                                     | 525               | 525                  | 600               |
| Term Loan C (102 million CAD at March 31, 2013) | 100               | 102                  | 117               |
| Term Loan D ( 123 million at March 31, 2013)    | 158               | 163                  | 188               |
| Senior Notes:                                   |                   |                      |                   |
| 3.00%, Exchangeable, due 2015                   | 647               | 642                  | 628               |
| 7.375%, due 2016                                | 591               | 591                  | 588               |
| 6.875%, due 2017 ( 300 million)                 | 396               | 396                  | 401               |
| 6.75%, due 2020 ( 500 million)                  | 641               | 660                  | 668               |
| 4.875%, due 2021 ( 330 million)                 | 423               |                      |                   |
| Senior Debentures:                              |                   |                      |                   |
| 7.80%, due 2018                                 | 250               | 250                  | 250               |
| Other   | 92                | 95                   | 139               |
| Total long-term debt                            | 3,606             | 3,477                | 3,811             |
| Less amounts due within one year                | 56                | 23                   | 87                |
| Long-term debt                                  | \$ 3,550          | \$ 3,454             | \$ 3,724          |

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the "Agreement"). At March 31, 2013, the Agreement included a \$900 million revolving credit facility, a 51 million Australian dollar term loan, a \$525 million term loan, a 102 million Canadian dollar term loan, and a 123 million term loan, each of which has a final maturity date of May 19, 2016. At March 31, 2013, the Company's subsidiary borrowers had unused credit of \$717 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at March 31, 2013 was 2.20%.

During March 2013, a subsidiary of the Company issued senior notes with a face value of 330 million due March 31, 2021. The notes bear interest at 4.875% and are guaranteed by substantially all of the Company's domestic subsidiaries. The net proceeds, after deducting debt issuance costs, totaled approximately \$418 million.

During March 2013, a subsidiary of the Company discharged, in accordance with the indenture, all 300 million of the 6.875% senior notes due 2017. The Company recorded \$11 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees.



# Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

The Company has a 240 million European accounts receivable securitization program, which extends through September 2016, subject to annual renewal of backup credit lines. Information related to the Company's accounts receivable securitization program is as follows:

|  | <b>March 31,<br/>2013</b> | <b>December 31,<br/>2012</b> | <b>March 31,<br/>2012</b> |
|--|---------------------------|------------------------------|---------------------------|
| Balance (included in short-term loans) | \$ 241                    | \$ 264                       | \$ 276                    |
| Weighted average interest rate         | 1.38%                     | 1.33%                        | 1.42%                     |

The carrying amounts reported for the accounts receivable securitization program, and certain long-term debt obligations subject to frequently redetermined interest rates, approximate fair value. Fair values for the Company's significant fixed rate debt obligations are based on published market quotations, and are classified as Level 1 in the fair value hierarchy.

Fair values at March 31, 2013 of the Company's significant fixed rate debt obligations are as follows:

|                                 | <b>Principal<br/>Amount</b> | <b>Indicated<br/>Market<br/>Price</b> | <b>Fair<br/>Value</b> |
|---------------------------------|-----------------------------|---------------------------------------|-----------------------|
| <b>Senior Notes:</b>            |                             |                                       |                       |
| 3.00%, Exchangeable, due 2015   | \$ 690                      | 100.98                                | \$ 697                |
| 7.375%, due 2016                | 600                         | 114.80                                | 689                   |
| 6.75%, due 2020 ( 500 million)  | 641                         | 112.55                                | 721                   |
| 4.875%, due 2021 ( 330 million) | 423                         | 101.14                                | 428                   |
| <b>Senior Debentures:</b>       |                             |                                       |                       |
| 7.80%, due 2018                 | 250                         | 117.00                                | 293                   |

## 8. Contingencies

The Company is a defendant in numerous lawsuits alleging bodily injury and death as a result of exposure to asbestos dust. From 1948 to 1958, one of the Company's former business units commercially produced and sold approximately \$40 million of a high-temperature, calcium-silicate based pipe and block insulation material containing asbestos. The Company exited the pipe and block insulation business in April 1958. The typical asbestos personal injury lawsuit alleges various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

As of March 31, 2013, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 2,600 plaintiffs and claimants. Based on an analysis of the lawsuits pending as of December 31, 2012, approximately 66% of plaintiffs either do not specify the monetary damages sought, or in the case of court filings, claim an amount sufficient to invoke the jurisdictional minimum of the trial court. Approximately 30% of plaintiffs specifically plead damages of \$15 million or less, and 4% of plaintiffs specifically plead damages greater than \$15 million but less than \$100 million. Fewer than 1% of plaintiffs specifically plead damages equal to or greater than \$100 million.



As indicated by the foregoing summary, current pleading practice permits considerable variation in the assertion of monetary damages. The Company's experience resolving hundreds of thousands of asbestos claims and lawsuits over an extended period demonstrates that the monetary relief that may be alleged in a complaint bears little relevance to a claim's merits or disposition value. Rather, the amount potentially recoverable is determined by such factors as the severity of the plaintiff's asbestos disease, the product identification evidence against the Company and other defendants, the defenses available to the Company and other defendants, the specific jurisdiction in which the claim is made, and the plaintiff's medical history and exposure to other disease-causing agents.

In addition to the pending claims set forth above, the Company has claims-handling agreements in place with many plaintiffs' counsel throughout the country. These agreements require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by such agreements. The criteria for such claims include verification of a compensable illness and a reasonable probability of exposure to a product manufactured by the Company's former business unit during its manufacturing period ending in 1958.

The Company has also been a defendant in other asbestos-related lawsuits or claims involving maritime workers, medical monitoring claimants, co-defendants and property damage claimants. Based upon its past experience, the Company believes that these categories of lawsuits and claims will not involve any material liability and they are not included in the above description of pending matters or in the following description of disposed matters.

Since receiving its first asbestos claim, the Company as of March 31, 2013, has disposed of the asbestos claims of approximately 391,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$8,400. Certain of these dispositions have included deferred amounts payable over a number of years. Deferred amounts payable totaled approximately \$25 million at March 31, 2013 (\$24 million at December 31, 2012) and are included in the foregoing average indemnity payment per claim. The Company's asbestos indemnity payments have varied on a per claim basis, and are expected to continue to vary considerably over time. As discussed above, a part of the Company's objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Failure of claimants to meet certain medical and product exposure criteria in the Company's administrative claims handling agreements has generally reduced the number of marginal or suspect claims that would otherwise have been received. In addition, certain courts and legislatures have reduced or eliminated the number of marginal or suspect claims that the Company otherwise would have received. These developments generally have had the effect of increasing the Company's per-claim average indemnity payment.

The Company believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot reasonably be estimated. Beginning with the initial liability of \$975 million established in 1993, the Company has accrued a total of approximately \$4.3 billion through 2012, before insurance recoveries, for its asbestos-related liability. The Company's ability to reasonably estimate its liability has been significantly affected by, among other factors, the volatility of asbestos-related litigation in the United States, the significant number of co-defendants that have filed for bankruptcy, the magnitude and timing of co-defendant bankruptcy trust payments, the inherent uncertainty of future disease incidence and claiming patterns, the expanding list of non-traditional defendants that have been sued in this litigation, and the use of mass litigation screenings to generate large numbers of claims by parties who allege exposure to asbestos dust but have no present physical asbestos impairment.

The Company has continued to monitor trends that may affect its ultimate liability and has continued to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company. The material components of the Company's accrued liability are based on amounts determined by the Company in connection with its annual comprehensive review and consist of the following estimates, to the extent it is probable that such liabilities have been incurred and can be reasonably estimated: (i) the liability for asbestos claims already asserted against the Company; (ii) the liability for preexisting but unasserted asbestos claims for prior periods arising under its administrative claims-handling agreements with various plaintiffs' counsel; (iii) the liability for asbestos claims not yet asserted against the Company, but which the Company believes will be asserted in the next several years; and (iv) the legal defense costs likely to be incurred in connection with the foregoing types of claims.

The significant assumptions underlying the material components of the Company's accrual are:

- a) the extent to which settlements are limited to claimants who were exposed to the Company's asbestos-containing insulation prior to its exit from that business in 1958;
- b) the extent to which claims are resolved under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;
- c) the extent of decrease or increase in the incidence of serious disease cases and claiming patterns for such cases;
- d) the extent to which the Company is able to defend itself successfully at trial;
- e) the extent to which courts and legislatures eliminate, reduce or permit the diversion of financial resources for unimpaired claimants;
- f) the number and timing of additional co-defendant bankruptcies;
- g) the extent to which bankruptcy trusts direct resources to resolve claims that are also presented to the Company and the timing of the payments made by the bankruptcy trusts; and
- h) the extent to which co-defendants with substantial resources and assets continue to participate significantly in the resolution of future asbestos lawsuits and claims.

As noted above, the Company conducts a comprehensive review of its asbestos-related liabilities and costs annually in connection with finalizing and reporting its annual results of operations, unless significant changes in trends or new developments warrant an earlier review. If the results of an annual comprehensive review indicate that the existing amount of the accrued liability is insufficient to cover its estimated future asbestos-related costs, then the Company will record an appropriate charge to increase the accrued liability. The Company believes that a reasonable estimation of the probable amount of the liability for claims not yet asserted against the Company is not possible beyond a period of several years. Therefore, while the results of future annual comprehensive reviews cannot be determined, the Company expects the addition of one year to the estimation period will result in an annual charge.

The Company's reported results of operations for 2012 were materially affected by the \$155 million fourth quarter charge for asbestos-related costs and asbestos-related payments continue

to be substantial. Any future additional charge would likewise materially affect the Company's results of operations for the period in which it is recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and may continue to affect the Company's cost of borrowing and its ability to pursue global or domestic acquisitions. However, the Company believes that its operating cash flows and other sources of liquidity will be sufficient to pay its obligations for asbestos-related costs and to fund its working capital and capital expenditure requirements on a short-term and long-term basis.

The Company is conducting an internal investigation into conduct in certain of its overseas operations that may have violated the anti-bribery provisions of the United States Foreign Corrupt Practices Act (the "FCPA"), the FCPA's books and records and internal controls provisions, the Company's own internal policies, and various local laws. In October 2012, the Company voluntarily disclosed these matters to the U.S. Department of Justice (the "DOJ") and the Securities and Exchange Commission (the "SEC"). The Company intends to cooperate with any investigation by the DOJ and the SEC.

The Company is presently unable to predict the duration, scope or result of its internal investigation, or any investigations by the DOJ or the SEC or whether either agency will commence any legal action. The DOJ and the SEC have a broad range of civil and criminal sanctions under the FCPA and other laws and regulations including, but not limited to, injunctive relief, disgorgement, fines, penalties, and modifications to business practices. The Company could also be subject to investigation and sanctions outside the United States. While the Company is currently unable to quantify the impact of any potential sanctions or remedial measures, it does not expect such actions will have a material adverse effect on the Company's liquidity, results of operations or financial condition.

Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are non-routine and involve compensatory, punitive or treble damage claims as well as other types of relief. The Company records a liability for such matters when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. Recorded amounts are reviewed and adjusted to reflect changes in the factors upon which the estimates are based including additional information, negotiations, settlements, and other events.

## 9. Share Owners Equity

The activity in share owners equity for the three months ended March 31, 2013 and 2012 is as follows:

|  | Share Owners Equity of the Company |                                |                |               |            |        | Accumulated Other Comprehensive Loss | Non-controlling Interests | Total Share Owners Equity |
|--|------------------------------------|--------------------------------|----------------|---------------|------------|--------|--------------------------------------|---------------------------|---------------------------|
|  | Common Stock                       | Capital in Excess of Par Value | Treasury Stock | Retained Loss |            |        |                                      |                           |                           |
| Balance on January 1, 2013   | \$ 2                               | \$ 3,005                       | \$ (425)       | \$ (195)      | \$ (1,506) | \$ 174 | \$ 1,055                             |                           |                           |
| Issuance of common stock<br>(0.3 million shares)                       |                                    | 4                              |                |               |            |        |                                      |                           | 4                         |
| Reissuance of common stock<br>(0.04 million shares)                    |                                    |                                | 1              |               |            |        |                                      |                           | 1                         |
| Stock compensation   |                                    | 4                              |                |               |            |        |                                      |                           | 4                         |
| Comprehensive income:  |                                    |                                |                |               |            |        |                                      |                           |                           |
| Net earnings   |                                    |                                |                | 69            |            |        | 5                                    |                           | 74                        |
| Foreign currency translation<br>adjustments                            |                                    |                                |                |               | (28)       | (4)    |                                      |                           | (32)                      |
| Pension and other<br>postretirement benefit<br>adjustments, net of tax |                                    |                                |                |               | 45         |        |                                      |                           | 45                        |
| Change in fair value of<br>derivative instruments                      |                                    |                                |                |               | 4          |        |                                      |                           | 4                         |
| Balance on March 31, 2013  | \$ 2                               | \$ 3,013                       | \$ (424)       | \$ (126)      | \$ (1,485) | \$ 175 | \$ 1,155                             |                           |                           |

|  | Share Owners Equity of the Company |                                |                |               |            |        | Accumulated Other Comprehensive Loss | Non-controlling Interests | Total Share Owners Equity |
|--|------------------------------------|--------------------------------|----------------|---------------|------------|--------|--------------------------------------|---------------------------|---------------------------|
|  | Common Stock                       | Capital in Excess of Par Value | Treasury Stock | Retained Loss |            |        |                                      |                           |                           |
| Balance on January 1, 2012   | \$ 2                               | \$ 2,991                       | \$ (405)       | \$ (379)      | \$ (1,321) | \$ 153 | \$ 1,041                             |                           |                           |
| Issuance of common stock<br>(0.1 million shares)                       |                                    | 1                              |                |               |            |        |                                      |                           | 1                         |
| Reissuance of common stock<br>(0.07 million shares)                    |                                    |                                | 1              |               |            |        |                                      |                           | 1                         |
| Stock compensation   |                                    | 4                              |                |               |            |        |                                      |                           | 4                         |
| Comprehensive income:  |                                    |                                |                |               |            |        |                                      |                           |                           |
| Net earnings   |                                    |                                |                | 121           |            | 4      |                                      |                           | 125                       |
| Foreign currency translation<br>adjustments                            |                                    |                                |                |               | 92         | 7      |                                      |                           | 99                        |
| Pension and other<br>postretirement benefit<br>adjustments, net of tax |                                    |                                |                |               | 24         |        |                                      |                           | 24                        |
| Balance on March 31, 2012  | \$ 2                               | \$ 2,996                       | \$ (404)       | \$ (258)      | \$ (1,205) | \$ 164 | \$ 1,295                             |                           |                           |

**10. Accumulated Other Comprehensive Loss**

The activity in accumulated other comprehensive loss for the three months ended March 31, 2013 is as follows:

|  | <b>Net Effect of<br/>Exchange<br/>Rate<br/>Fluctuations</b> | <b>Change in<br/>Certain<br/>Derivative<br/>Instruments</b> | <b>Employee<br/>Benefit Plans</b> | <b>Total<br/>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> |
|--|---|---|-----------------------------------|---|
| Balance on January 1, 2013                                       | \$ 455  | \$ (14)   | \$ (1,947)                        | \$ (1,506)  |
| Change before reclassifications                                  | (28)  | 3   |                                   | (25)  |
| Amounts reclassified from accumulated other comprehensive income |   | 1(a)  | 37(b)                             | 38  |
| Translation effect   |   |   | 10                                | 10  |
| Tax effect   |   |   | (2)                               | (2)   |
| Other comprehensive income attributable to the Company           | (28)  | 4   | 45                                | 21  |
| Balance on March 31, 2013  | \$ 427  | \$ (10)   | \$ (1,902)                        | \$ (1,485)  |

(a) Amount is included in Manufacturing, shipping and delivery on the Condensed Consolidated Results of Operations (see Note 3 for additional information).

(b) Amount is included in the computation of net periodic pension cost and net postretirement benefit cost (see Note 5 for additional information).

**11. Other Expense**

During the three months ended March 31, 2013, the Company recorded charges of \$10 million for restructuring, asset impairment and related charges primarily related to the Company's European Asset Optimization program. See Note 4 for additional information.

**12. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share:

|   | Three months ended March 31,<br>2013 |         | 2012 |         |
|---|--------------------------------------|---------|------|---------|
| <b>Numerator:</b>   |                                      |         |      |         |
| Net earnings attributable to the Company  | \$                                   | 69      | \$   | 121     |
| <b>Denominator (in thousands):</b>  |                                      |         |      |         |
| Denominator for basic earnings per share - weighted average shares outstanding            |                                      | 164,069 |      | 164,241 |
| <b>Effect of dilutive securities:</b>   |                                      |         |      |         |
| Stock options and other   |                                      | 1,432   |      | 1,965   |
| Denominator for diluted earnings per share - adjusted weighted average shares outstanding |                                      | 165,501 |      | 166,206 |
| <b>Basic earnings per share:</b>  |                                      |         |      |         |
| Earnings from continuing operations   | \$                                   | 0.48    | \$   | 0.74    |
| Loss from discontinued operations   |                                      | (0.06)  |      | (0.01)  |
| Net earnings  | \$                                   | 0.42    | \$   | 0.73    |
| <b>Diluted earnings per share:</b>  |                                      |         |      |         |
| Earnings from continuing operations   | \$                                   | 0.48    | \$   | 0.73    |
| Loss from discontinued operations   |                                      | (0.06)  |      | (0.01)  |
| Net earnings  | \$                                   | 0.42    | \$   | 0.72    |

Options to purchase 1,640,504 and 956,580 weighted average shares of common stock which were outstanding during the three months ended March 31, 2013 and 2012, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

The 2015 Exchangeable Notes have a dilutive effect only in those periods in which the Company's average stock price exceeds the exchange price of \$47.47 per share. For the three months ended March 31, 2013 and 2012, the Company's average stock price did not exceed the exchange price. Therefore, the potentially issuable shares resulting from the settlement of the 2015 Exchangeable Notes were not included in the calculation of diluted earnings per share.

**13. Supplemental Cash Flow Information**

|                            | <b>Three months ended March 31,<br/>2013</b> |    | <b>2012</b> |    |
|----------------------------|--|----|-------------|----|
| Interest paid in cash      | \$   | 81 | \$          | 69 |
| Income taxes paid in cash: |  |    |             |    |
| Non-U.S.                   |  | 33 |             | 31 |

Cash interest for 2013 includes note repurchase premiums of \$9 million related to the discharge of the Company's 6.875% senior notes due 2017.

**14. Discontinued Operations**

On October 26, 2010, the Venezuelan government, through Presidential Decree No. 7.751, expropriated the assets of Owens-Illinois de Venezuela and Fabrica de Vidrios Los Andes, C.A., two of the Company's subsidiaries in that country, which in effect constituted a taking of the going concerns of those companies. Shortly after the issuance of the decree, the Venezuelan government installed temporary administrative boards to control the expropriated assets.

Since the issuance of the decree, the Company has cooperated with the Venezuelan government, as it is compelled to do under Venezuelan law, to provide for an orderly transition while ensuring the safety and well-being of the employees and the integrity of the production facilities. The Company has been engaged in negotiations with the Venezuelan government in relation to certain aspects of the expropriation, including the compensation payable by the government as a result of its expropriation. On September 26, 2011, the Company, having been unable to reach an agreement with the Venezuelan government regarding fair compensation, commenced an arbitration against Venezuela through the World Bank's International Centre for Settlement of Investment Disputes. The Company is unable at this stage to predict the amount, or timing of receipt, of compensation it will ultimately receive.

The loss from discontinued operations of \$10 million for the three months ended March 31, 2013 included \$8 million of special termination benefits related to a previously disposed business and \$2 million for ongoing costs related to the Venezuela expropriation.

**15. Financial Information for Subsidiary Guarantors and Non-Guarantors**

The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois, Inc., the issuer of senior debentures (the Parent); (2) the two subsidiaries which have guaranteed the senior debentures on a subordinated basis (the Guarantor Subsidiaries); and (3) all other subsidiaries (the Non-Guarantor Subsidiaries). The Guarantor Subsidiaries are 100% owned direct and indirect subsidiaries of the Company and their guarantees are full, unconditional and joint and several. They have no operations and function only as intermediate holding companies.

**Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q**

Certain reclassifications have been made to conform all of the financial information to the financial presentation on a consolidated basis. The principal eliminations relate to investments in subsidiaries and intercompany balances and transactions.

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

|  | Parent          | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations      | Consolidated    |
|--|-----------------|---------------------------|-----------------------------------|-------------------|-----------------|
| <b>Balance Sheet</b>                                       |                 |                           |                                   |                   |                 |
| Current assets:  |                 |                           |                                   |                   |                 |
| Accounts receivable  | \$              | \$                        | \$                                | 1,047             | \$ 1,047        |
| Inventories  |                 |                           |                                   | 1,178             | 1,178           |
| Other current assets                                       |                 |                           |                                   | 458               | 458             |
| <b>Total current assets</b>                                |                 |                           |                                   | <b>2,683</b>      | <b>2,683</b>    |
| Investments in and advances to<br>subsidiaries             | 1,674           | 1,424                     |                                   | (3,098)           |                 |
| Goodwill   |                 |                           | 2,048                             |                   | 2,048           |
| Other non-current assets                                   |                 |                           | 1,106                             |                   | 1,106           |
| <b>Total other assets</b>                                  | <b>1,674</b>    | <b>1,424</b>              | <b>3,154</b>                      | <b>(3,098)</b>    | <b>3,154</b>    |
| <b>Property, plant and equipment, net</b>                  |                 |                           | <b>2,680</b>                      |                   | <b>2,680</b>    |
| <b>Total assets</b>  | <b>\$ 1,674</b> | <b>\$ 1,424</b>           | <b>\$ 8,517</b>                   | <b>\$ (3,098)</b> | <b>\$ 8,517</b> |
| Current liabilities :                                      |                 |                           |                                   |                   |                 |
| Accounts payable and accrued liabilities                   | \$              | \$                        | \$                                | 1,427             | \$ 1,427        |
| Current portion of asbestos liability                      | 155             |                           |                                   |                   | 155             |
| Short-term loans and long-term debt due<br>within one year |                 |                           | 347                               |                   | 347             |
| <b>Total current liabilities</b>                           | <b>155</b>      |                           | <b>1,774</b>                      |                   | <b>1,929</b>    |
| Long-term debt   | 250             |                           | 3,550                             | (250)             | 3,550           |
| Asbestos-related liabilities                               | 289             |                           |                                   |                   | 289             |
| Other non-current liabilities                              |                 |                           | 1,594                             |                   | 1,594           |
| <b>Total share owners' equity of the Company</b>           | <b>980</b>      | <b>1,424</b>              | <b>1,424</b>                      | <b>(2,848)</b>    | <b>980</b>      |
| Noncontrolling interests                                   |                 |                           | 175                               |                   | 175             |
| <b>Total liabilities and share owners' equity</b>          | <b>\$ 1,674</b> | <b>\$ 1,424</b>           | <b>\$ 8,517</b>                   | <b>\$ (3,098)</b> | <b>\$ 8,517</b> |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

|  | <b>Parent</b>   | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------|-----------------------------------|--|---------------------|---------------------|
| <b>Balance Sheet</b>                                       |                 |                                   |  |                     |                     |
| Current assets:  |                 |                                   |  |                     |                     |
| Accounts receivable  | \$              | \$                                | \$   | 968                 | \$ 968              |
| Inventories  |                 |                                   |  | 1,139               | 1,139               |
| Other current assets                                       |                 |                                   |  | 541                 | 541                 |
| <b>Total current assets</b>                                |                 |                                   |  | <b>2,648</b>        | <b>2,648</b>        |
| Investments in and advances to<br>subsidiaries             | 1,592           | 1,342                             |  | (2,934)             |                     |
| Goodwill   |                 |                                   |  | 2,079               | 2,079               |
| Other non-current assets                                   |                 |                                   |  | 1,102               | 1,102               |
| <b>Total other assets</b>                                  | <b>1,592</b>    | <b>1,342</b>                      | <b>3,181</b>                               | <b>(2,934)</b>      | <b>3,181</b>        |
| <b>Property, plant and equipment, net</b>                  |                 |                                   | <b>2,769</b>                               |                     | <b>2,769</b>        |
| <b>Total assets</b>  | <b>\$ 1,592</b> | <b>\$ 1,342</b>                   | <b>\$ 8,598</b>                            | <b>\$ (2,934)</b>   | <b>\$ 8,598</b>     |
| Current liabilities :                                      |                 |                                   |  |                     |                     |
| Accounts payable and accrued liabilities                   | \$              | \$                                | \$   | 1,688               | \$ 1,688            |
| Current portion of asbestos liability                      | 155             |                                   |  |                     | 155                 |
| Short-term loans and long-term debt due<br>within one year |                 |                                   |  | 319                 | 319                 |
| <b>Total current liabilities</b>                           | <b>155</b>      |                                   | <b>2,007</b>                               |                     | <b>2,162</b>        |
| Long-term debt   | 250             |                                   | 3,454                                      | (250)               | 3,454               |
| Asbestos-related liabilities                               | 306             |                                   |  |                     | 306                 |
| Other non-current liabilities                              |                 |                                   | 1,621                                      |                     | 1,621               |
| <b>Total share owners' equity of the Company</b>           | <b>881</b>      | <b>1,342</b>                      | <b>1,342</b>                               | <b>(2,684)</b>      | <b>881</b>          |
| Noncontrolling interests                                   |                 |                                   | 174  |                     | 174                 |
| <b>Total liabilities and share owners' equity</b>          | <b>\$ 1,592</b> | <b>\$ 1,342</b>                   | <b>\$ 8,598</b>                            | <b>\$ (2,934)</b>   | <b>\$ 8,598</b>     |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

|   |                 |     | March 31, 2012            |                                   |                 |                   |              |                 |
|---|-----------------|-----|---------------------------|-----------------------------------|-----------------|-------------------|--------------|-----------------|
|   |                 |     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries |                 |                   | Eliminations | Consolidated    |
|   | Parent          |     |                           |                                   |                 |                   |              |                 |
| <b>Balance Sheet</b>                                    |                 |     |                           |                                   |                 |                   |              |                 |
| Current assets:   |                 |     |                           |                                   |                 |                   |              |                 |
| Accounts receivable                                     | \$              |     | \$                        | \$                                | 1,199           | \$                | \$           | 1,199           |
| Inventories   |                 |     |                           |                                   | 1,237           |                   |              | 1,237           |
| Other current assets                                    |                 |     |                           |                                   | 429             |                   |              | 429             |
| <b>Total current assets</b>                             |                 |     |                           |                                   | <b>2,865</b>    |                   |              | <b>2,865</b>    |
| Investments in and advances to subsidiaries             | 1,822           |     | 1,572                     |                                   |                 | (3,394)           |              |                 |
| Goodwill  |                 |     |                           |                                   | 2,127           |                   |              | 2,127           |
| Other non-current assets                                |                 |     |                           |                                   | 1,285           |                   |              | 1,285           |
| <b>Total other assets</b>                               | <b>1,822</b>    |     | <b>1,572</b>              |                                   | <b>3,412</b>    | (3,394)           |              | <b>3,412</b>    |
| Property, plant and equipment, net                      |                 |     |                           |                                   | 2,884           |                   |              | 2,884           |
| <b>Total assets</b>                                     | <b>\$ 1,822</b> |     | <b>\$ 1,572</b>           |                                   | <b>\$ 9,161</b> | <b>\$ (3,394)</b> |              | <b>\$ 9,161</b> |
| Current liabilities :                                   |                 |     |                           |                                   |                 |                   |              |                 |
| Accounts payable and accrued liabilities                | \$              |     | \$                        | \$                                | 1,545           | \$                | \$           | 1,545           |
| Current portion of asbestos liability                   |                 | 165 |                           |                                   |                 |                   |              | 165             |
| Short-term loans and long-term debt due within one year |                 |     |                           |                                   | 406             |                   |              | 406             |
| <b>Total current liabilities</b>                        | <b>165</b>      |     |                           |                                   | <b>1,951</b>    |                   |              | <b>2,116</b>    |
| Long-term debt  | 250             |     |                           |                                   | 3,724           |                   | (250)        | 3,724           |
| Asbestos-related liabilities                            | 276             |     |                           |                                   |                 |                   |              | 276             |
| Other non-current liabilities                           |                 |     |                           |                                   | 1,750           |                   |              | 1,750           |
| <b>Total share owners' equity of the Company</b>        | <b>1,131</b>    |     | <b>1,572</b>              |                                   | <b>1,572</b>    | (3,144)           |              | <b>1,131</b>    |
| Noncontrolling interests                                |                 |     |                           |                                   | 164             |                   |              | 164             |
| <b>Total liabilities and share owners' equity</b>       | <b>\$ 1,822</b> |     | <b>\$ 1,572</b>           |                                   | <b>\$ 9,161</b> | <b>\$ (3,394)</b> |              | <b>\$ 9,161</b> |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

|   | Three months ended March 31, 2013 |                           |                                   |              |              |
|---|-----------------------------------|---------------------------|-----------------------------------|--------------|--------------|
|   | Parent                            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| <b>Results of Operations</b>                              |                                   |                           |                                   |              |              |
| Net sales   | \$                                | \$                        | \$                                | 1,641        | \$ 1,641     |
| Manufacturing, shipping and delivery                      |                                   |                           |                                   | (1,322)      | (1,322)      |
| Gross profit  |                                   |                           |                                   | 319          | 319          |
| Research, engineering, selling, administrative, and other |                                   |                           |                                   | (158)        | (158)        |
| Net intercompany interest                                 | 5                                 |                           | (5)                               |              |              |
| Interest expense  | (5)                               |                           | (66)                              |              | (71)         |
| Interest income   |                                   |                           | 3                                 |              | 3            |
| Equity earnings from subsidiaries                         | 69                                | 69                        |                                   | (138)        |              |
| Other equity earnings                                     |                                   |                           | 17                                |              | 17           |
| Other income  |                                   |                           | 7                                 |              | 7            |
| Earnings before income taxes                              | 69                                | 69                        | 117                               | (138)        | 117          |
| Provision for income taxes                                |                                   |                           | (33)                              |              | (33)         |
| Earnings from continuing operations                       | 69                                | 69                        | 84                                | (138)        | 84           |
| Loss from discontinued operations                         |                                   |                           | (10)                              |              | (10)         |
| Net earnings  | 69                                | 69                        | 74                                | (138)        | 74           |
| Net earnings attributable to noncontrolling interests     |                                   |                           | (5)                               |              | (5)          |
| Net earnings attributable to the Company                  | \$ 69                             | \$ 69                     | \$ 69                             | \$ (138)     | \$ 69        |

|   | Three months ended March 31, 2013 |                           |                                   |              |              |
|---|-----------------------------------|---------------------------|-----------------------------------|--------------|--------------|
|   | Parent                            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| <b>Comprehensive Income</b>                                   |                                   |                           |                                   |              |              |
| Net earnings  | \$ 69                             | \$ 69                     | \$ 74                             | \$ (138)     | \$ 74        |
| Other comprehensive income                                    | 21                                | 21                        | (12)                              | (13)         | 17           |
| Total comprehensive income                                    | 90                                | 90                        | 62                                | (151)        | 91           |
| Comprehensive income attributable to noncontrolling interests |                                   |                           | (1)                               |              | (1)          |
| Comprehensive income attributable to the Company              | \$ 90                             | \$ 90                     | \$ 61                             | \$ (151)     | \$ 90        |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

|   | Three months ended March 31, 2012 |                        |                            |              |              |
|---|-----------------------------------|------------------------|----------------------------|--------------|--------------|
|   | Parent                            | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| <b>Results of Operations</b>                                  |                                   |                        |                            |              |              |
| Net sales   | \$                                | \$                     | \$                         | 1,739        | \$ 1,739     |
| Manufacturing, shipping and delivery                          |                                   |                        |                            | (1,361)      | (1,361)      |
| Gross profit  |                                   |                        |                            | 378          | 378          |
| Research, engineering, selling, administrative, and other     |                                   |                        |                            | (166)        | (166)        |
| Net intercompany interest                                     | 5                                 |                        | (5)                        |              |              |
| Interest expense  | (5)                               |                        | (59)                       |              | (64)         |
| Interest income   |                                   |                        | 3                          |              | 3            |
| Equity earnings from subsidiaries                             | 121                               | 121                    |                            | (242)        |              |
| Other equity earnings   |                                   |                        | 13                         |              | 13           |
| Other income  |                                   |                        | 6                          |              | 6            |
| Earnings from continuing operations before income taxes       | 121                               | 121                    | 170                        | (242)        | 170          |
| Provision for income taxes                                    |                                   |                        | (44)                       |              | (44)         |
| Earnings from continuing operations                           | 121                               | 121                    | 126                        | (242)        | 126          |
| Loss from discontinued operations                             |                                   |                        | (1)                        |              | (1)          |
| Net earnings  | 121                               | 121                    | 125                        | (242)        | 125          |
| Net earnings attributable to noncontrolling interests         |                                   |                        | (4)                        |              | (4)          |
| Net earnings attributable to the Company                      | \$ 121                            | \$ 121                 | \$ 121                     | \$ (242)     | \$ 121       |
| <b>Comprehensive Income</b>                                   |                                   |                        |                            |              |              |
| Net earnings  | \$ 121                            | \$ 121                 | \$ 125                     | \$ (242)     | \$ 125       |
| Other comprehensive income                                    | 116                               | 116                    | 99                         | (208)        | 123          |
| Total comprehensive income                                    | 237                               | 237                    | 224                        | (450)        | 248          |
| Comprehensive income attributable to noncontrolling interests |                                   |                        | (11)                       |              | (11)         |
| Comprehensive income attributable to the Company              | \$ 237                            | \$ 237                 | \$ 213                     | \$ (450)     | \$ 237       |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

| Cash Flows                                      | Parent  | Three months ended March 31, 2013 |                                   |              | Eliminations | Consolidated |
|---|---------|-----------------------------------|-----------------------------------|--------------|--------------|--------------|
|   |         | Guarantor<br>Subsidiaries         | Non-<br>Guarantor<br>Subsidiaries |              |              |              |
| Cash provided by (used in) operating activities | \$ (17) | \$ (119)                          | \$ (136)                          |              |              |              |
| Cash used in investing activities               |         |                                   | \$ (94)                           |              |              | \$ (94)      |
| Cash provided by (used in) financing activities | 17      |                                   | 142                               |              |              | 159          |
| Effect of exchange rate change on cash          |         |                                   | (1)                               |              |              | (1)          |
| Net change in cash                              |         |                                   | (72)                              |              |              | (72)         |
| Cash at beginning of period                     |         |                                   | 431                               |              |              | 431          |
| Cash at end of period                           | \$      | \$                                | \$ 359                            | \$           | \$           | 359          |
| Three months ended March 31, 2012               |         |                                   |                                   |              |              |              |
| Cash Flows                                      | Parent  | Guarantor<br>Subsidiaries         | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |              |
|   |         |                                   |                                   |              |              |              |
| Cash used in operating activities               | \$ (30) | \$ (65)                           | \$ (95)                           |              |              |              |
| Cash used in investing activities               |         |                                   | \$ (67)                           |              |              | \$ (67)      |
| Cash provided by financing activities           | 30      |                                   | 15                                |              |              | 45           |
| Effect of exchange rate change on cash          |         |                                   | 16                                |              |              | 16           |
| Net change in cash                              |         |                                   | (101)                             |              |              | (101)        |
| Cash at beginning of period                     |         |                                   | 400                               |              |              | 400          |
| Cash at end of period                           | \$      | \$                                | \$ 299                            | \$           | \$           | 299          |

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The Company's measure of profit for its reportable segments is segment operating profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations as well as certain retained corporate costs. The segment data presented below is prepared in accordance with general accounting principles for segment reporting. The line titled "reportable segment totals", however, is a non-GAAP measure when presented outside of the financial statement footnotes. Management has included reportable segment totals below to facilitate the discussion and analysis of financial condition and results of operations. The Company's management uses segment operating profit, in combination with net sales and selected cash flow information, to evaluate performance and to allocate resources.

Financial information for the three-month periods ended March 31, 2013 and 2012 regarding the Company's reportable segments is as follows (dollars in millions):

|                                      | Three months ended<br>March 31, |                 |
|--------------------------------------|---------------------------------|-----------------|
|                                      | 2013                            | 2012            |
| <b>Net Sales:</b>                    |                                 |                 |
| Europe                               | \$ 650                          | \$ 705          |
| North America                        | 469                             | 482             |
| South America                        | 269                             | 277             |
| Asia Pacific                         | 247                             | 257             |
| <br><b>Reportable segment totals</b> | <br>1,635                       | <br>1,721       |
| Other                                | 6                               | 18              |
| <b>Net Sales</b>                     | <b>\$ 1,641</b>                 | <b>\$ 1,739</b> |

|   | Three months ended<br>March 31, |        |  |
|---|---------------------------------|--------|--|
|   | 2013                            | 2012   |  |
| Segment operating profit:                               |                                 |        |  |
| Europe  | \$ 59                           | \$ 108 |  |
| North America   | 74                              | 78     |  |
| South America   | 53                              | 38     |  |
| Asia Pacific  | 40                              | 36     |  |
| Reportable segment totals                               | 226                             | 260    |  |
| Items excluded from segment operating profit:           |                                 |        |  |
| Retained corporate costs and other                      | (31)                            | (29)   |  |
| Restructuring, asset impairment and related charges     | (10)                            |        |  |
| Interest income   | 3                               | 3      |  |
| Interest expense  | (71)                            | (64)   |  |
| Earnings from continuing operations before income taxes | 117                             | 170    |  |
| Provision for income taxes                              | (33)                            | (44)   |  |
| Earnings from continuing operations                     | 84                              | 126    |  |
| Loss from discontinued operations                       | (10)                            | (1)    |  |
| Net earnings  | 74                              | 125    |  |
| Net earnings attributable to noncontrolling interests   | (5)                             | (4)    |  |
| Net earnings attributable to the Company                | \$ 69                           | \$ 121 |  |
| Amounts attributable to the Company:                    |                                 |        |  |
| Earnings from continuing operations                     | \$ 79                           | \$ 122 |  |
| Loss from discontinued operations                       | (10)                            | (1)    |  |
| Net earnings  | \$ 69                           | \$ 121 |  |

Note: All amounts excluded from reportable segment totals are discussed in the following applicable sections.

#### ***Executive Overview Quarters ended March 31, 2013 and 2012***

#### ***First Quarter 2013 Highlights***

- Net sales lower due to 5% decline in glass container shipments.
- Segment operating profit lower due to decline in glass container production and shipments, partially offset by global cost control initiatives.
- Issued 330 million 4.875% senior notes due 2021 and discharged 300 million 6.875% senior notes due 2017.

## Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

Net sales were \$98 million lower than the prior year due to a 5% decline in glass container shipments, primarily in the Company's European segment. Higher selling prices were offset by the unfavorable effect of changes in foreign currency exchange rates.

Segment operating profit for reportable segments was \$34 million lower than the prior year. The decrease was mainly attributable to lower production volume, which resulted in higher manufacturing costs, and lower sales volume, partially offset by global cost control initiatives.

Interest expense for the first quarter of 2013 increased \$7 million over the first quarter of 2012. The increase was due to note repurchase premiums and the write-off of finance fees related to debt that was repaid during the first quarter of 2013 prior to its maturity.

Net earnings from continuing operations attributable to the Company for the first quarter of 2013 was \$79 million, or \$0.48 per share (diluted), compared with \$122 million, or \$0.73 per share (diluted), for the first quarter of 2012. Earnings in the first quarter of 2013 included items that management considered not representative of ongoing operations. These items decreased net earnings attributable to the Company in 2013 by \$20 million, or \$0.12 per share. There were no items that management considered not representative of ongoing operations in the first quarter of 2012.

#### **Results of Operations First Quarter of 2013 compared with First Quarter of 2012**

##### *Net Sales*

The Company's net sales in the first quarter of 2013 were \$1,641 million compared with \$1,739 million for the first quarter of 2012, a decrease of \$98 million, or 6%. Glass container shipments, in tonnes, were down 5% in the first quarter of 2013 compared to the first quarter of 2012, driven by lower sales in Europe, North America and Asia Pacific, partially offset by higher sales in South America. The benefit of higher selling prices to recover cost inflation was offset by unfavorable foreign currency exchange rate changes, primarily due to a weaker Brazilian real and Euro in relation to the U.S. dollar.

The change in net sales of reportable segments can be summarized as follows (dollars in millions):

|  |      |       |
|--|------|-------|
| Net sales - 2012                           | \$   | 1,721 |
| Price                                      | \$   | 37    |
| Sales volume                               | (86) |       |
| Effects of changing foreign currency rates | (37) |       |
| Total effect on net sales                  | (86) |       |
| Net sales - 2013                           | \$   | 1,635 |

**Europe:** Net sales in Europe in the first quarter of 2013 were \$650 million compared with \$705 million for the first quarter of 2012, a decrease of \$55 million, or 8%. Glass container shipments in the first quarter of 2013 were down 8% compared to the first quarter of 2012, particularly in the beer category. The lower sales volume, which reduced net sales by \$57 million, was mainly due to the macroeconomic conditions in Europe and the share shift experienced during 2012 in response to the Company's pricing strategy. Higher selling prices benefited net sales in the first quarter of 2013 by \$12 million as the Company raised prices to recover cost inflation. The favorable impact of higher selling prices was mostly offset by \$10 million of unfavorable foreign currency exchange rate changes, as the Euro weakened in relation to the U.S. dollar.

**North America:** Net sales in North America in the first quarter of 2013 were \$469 million compared with \$482 million for the first quarter of 2012, a decrease of \$13 million, or 3%. The decrease in net sales was due to lower sales volume, which resulted in a \$19 million reduction in the first quarter of 2013. Glass container shipments were down 4% in the quarter compared to the prior year, driven by lower beer bottle sales from the unfavorable weather conditions in



the region compared to the first quarter of 2012. Partially offsetting the decline in sales volume were higher selling prices as the Company increased prices to recover cost inflation.

**South America:** Net sales in South America in the first quarter of 2013 were \$269 million compared with \$277 million for the first quarter of 2012, a decrease of \$8 million, or 3%. The unfavorable effects of foreign currency exchange rate changes decreased net sales \$21 million in the first quarter of 2013 compared to 2012, principally due to a 14% decline in the Brazilian real in relation to the U.S. dollar. Higher sales volume and improved pricing in the current quarter benefited net sales by \$13 million as glass container shipments were up 4%, with gains achieved in nearly all countries, and the Company increased selling prices to recover cost inflation.

**Asia Pacific:** Net sales in Asia Pacific in the first quarter of 2013 were \$247 million compared with \$257 million for the first quarter of 2012, a decrease of \$10 million, or 4%. Glass container shipments were down 5% compared to the prior year, largely due to the closure of a plant in the region at the end of 2012, resulting in a \$12 million decline in net sales. The unfavorable effects of foreign currency exchange rate changes during the first quarter of 2013, primarily due to the weakening of the Australian dollar in relation to the U.S. dollar, were more than offset by improved pricing.

#### *Segment Operating Profit*

Operating profit of the reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. Unallocated corporate expenses and certain other expenses not directly related to the reportable segments operations are included in Retained corporate costs and other. For further information, see Segment Information included in Note 1 to the Condensed Consolidated Financial Statements.

Segment operating profit of reportable segments in the first quarter of 2013 was \$226 million compared to \$260 million for the first quarter of 2012, a decrease of \$34 million, or 13%. The decrease in segment operating profit was primarily due to higher manufacturing and delivery costs and lower sales volume, partially offset by lower operating expenses. Manufacturing and delivery costs were higher in the current quarter as the Company lowered production volumes in Europe in order to reduce earnings volatility by better phasing production over the course of the year. This action, along with an increase in the number of furnace rebuilds in North America, resulted in lower fixed cost absorption in the first quarter of 2013. Operating expenses were lower in the current year due to global cost control initiatives. Higher selling prices in the first quarter of 2013 were almost completely offset by cost inflation.

The change in segment operating profit of reportable segments can be summarized as follows (dollars in millions):

|  |    |      |
|--|----|------|
| Segment operating profit - 2012              | \$ | 260  |
| Price  | \$ | 37   |
| Cost inflation                               |    | (34) |
| Price / inflation spread                     |    | 3    |
| Sales volume                                 |    | (19) |
| Manufacturing and delivery                   |    | (29) |
| Operating expenses and other                 |    | 12   |
| Effects of changing foreign currency rates   |    | (1)  |
| Total net effect on segment operating profit |    | (34) |
| Segment operating profit - 2013              | \$ | 226  |

*Europe:* Segment operating profit in Europe in the first quarter of 2013 was \$59 million compared with \$108 million in the first quarter of 2012, a decrease of \$49 million, or 45%. The decline in sales volume discussed above decreased segment operating profit by \$15 million and higher manufacturing and delivery costs decreased earnings by \$43 million. The Company deliberately lowered production in this region during the first quarter of 2013 to reduce earnings volatility by better phasing production over the course of the year. The lower production in the current quarter resulted in lower fixed cost absorption compared to the prior year. The benefit of higher selling prices in the quarter was completely offset by cost inflation. Lower operating expenses, driven by cost control initiatives, had a \$6 million positive impact on segment operating profit during the first quarter of 2013.

*North America:* Segment operating profit in North America in the first quarter of 2013 was \$74 million compared with \$78 million in the first quarter of 2012, a decrease of \$4 million, or 5%. The decline in sales volume discussed above decreased segment operating profit by \$5 million. The benefit of higher selling prices in the quarter was completely offset by cost inflation. Lower production in the current year due to a higher number of furnace rebuilds resulted in lower fixed cost absorption, but this impact was entirely offset by the benefits of cost control initiatives.

*South America:* Segment operating profit in South America in the first quarter of 2013 was \$53 million compared with \$38 million in the first quarter of 2012, an increase of \$15 million, or 39%. Manufacturing and delivery costs were \$14 million lower in the first quarter of 2013 compared to the prior year, primarily due to the benefits of the new furnace in Brazil that started production at the end of 2012. Higher sales volume increased segment operating profit in the first quarter of 2013, while the benefit of higher selling prices in the quarter was offset by cost inflation.

*Asia Pacific:* Segment operating profit in Asia Pacific in the first quarter of 2013 was \$40 million compared with \$36 million in the first quarter of 2012, an increase of \$4 million, or 11%. The increase in operating profit was primarily due to the benefits realized from the permanent footprint adjustments made in Australia over the past year and other cost control initiatives. The benefit of higher selling prices in the quarter was mostly offset by cost inflation.

*Interest Expense*

Interest expense for the first quarter of 2013 was \$71 million compared with \$64 million for the first quarter of 2012. Interest expense for 2013 included \$11 million for note repurchase premiums and the write-off of finance fees related to the discharge of the 300 million senior notes due 2017. Exclusive of these items, interest expense decreased \$4 million in the current year. The decrease was principally due to lower interest rates and the prepayment in 2012 of term loans under the bank credit agreement.

*Provision for Income Taxes*

The Company's effective tax rate from continuing operations for the three months ended March 31, 2013 was 28.2% compared with 25.9% for the three months ended March 31, 2012. Excluding the amounts related to items that management considers not representative of ongoing operations, the Company expects that the full year effective tax rate for 2013 will be higher than the 22.1% rate recorded in 2012. The increase in the expected effective tax rate for the full year 2013 is due to the Company's current expected change in mix of earnings by jurisdiction.

*Earnings from Continuing Operations Attributable to the Company*

For the first quarter of 2013, the Company recorded earnings from continuing operations attributable to the Company of \$79 million, or \$0.48 per share (diluted), compared to \$122 million, or \$0.73 per share (diluted), in the first quarter of 2012. Earnings in the first quarter of 2013 included items that management considered not representative of ongoing operations. These items decreased earnings from continuing operations attributable to the Company in 2013 by \$20 million, or \$0.12 per share. There were no items that management considered not representative of ongoing operations in the first quarter of 2012.

**Items Excluded from Reportable Segment Totals**

Retained Corporate Costs and Other

Retained corporate costs and other for the first quarter of 2013 was \$31 million compared with \$29 million for the first quarter of 2012. Retained corporate costs and other for the three months ended March 31, 2013 reflect lower global equipment sales and higher pension expense, partially offset by cost control initiatives.

Restructuring

During the three months ended March 31, 2013, the Company recorded restructuring, asset impairment and related charges of \$10 million, primarily related to the European Asset Optimization program. See Note 4 to the Condensed Consolidated Financial Statements for additional

information.

Discontinued Operations

On October 26, 2010, the Venezuelan government, through Presidential Decree No. 7.751, expropriated the assets of Owens-Illinois de Venezuela and Fabrica de Vidrios Los Andes, C.A., two of the Company's subsidiaries in that country, which in effect constituted a taking of the

going concerns of those companies. Shortly after the issuance of the decree, the Venezuelan government installed temporary administrative boards to control the expropriated assets.

Since the issuance of the decree, the Company has cooperated with the Venezuelan government, as it is compelled to do under Venezuelan law, to provide for an orderly transition while ensuring the safety and well-being of the employees and the integrity of the production facilities. The Company has been engaged in negotiations with the Venezuelan government in relation to certain aspects of the expropriation, including the compensation payable by the government as a result of its expropriation. On September 26, 2011, the Company, having been unable to reach an agreement with the Venezuelan government regarding fair compensation, commenced an arbitration against Venezuela through the World Bank's International Centre for Settlement of Investment Disputes. The Company is unable at this stage to predict the amount, or timing of receipt, of compensation it will ultimately receive.

The loss from discontinued operations of \$10 million for the three months ended March 31, 2013 included \$8 million of special termination benefits related to a previously disposed business and \$2 million for ongoing costs related to the Venezuela expropriation.

### **Capital Resources and Liquidity**

As of March 31, 2013, the Company had cash and total debt of \$359 million and \$3.9 billion, respectively, compared to \$299 million and \$4.1 billion, respectively, as of March 31, 2012. A significant portion of the cash was held in mature, liquid markets where the Company has operations, such as the U.S., Europe and Australia, and is readily available to fund global liquidity requirements. The amount of cash held in non-U.S. locations as of March 31, 2013 was \$343 million.

#### *Current and Long-Term Debt*

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the "Agreement"). At March 31, 2013, the Agreement included a \$900 million revolving credit facility, a 51 million Australian dollar term loan, a \$525 million term loan, a 102 million Canadian dollar term loan, and a 123 million term loan, each of which has a final maturity date of May 19, 2016. At March 31, 2013, the Company's subsidiary borrowers had unused credit of \$717 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at March 31, 2013 was 2.20%.

During March 2013, a subsidiary of the Company issued senior notes with a face value of 330 million due March 31, 2021. The notes bear interest at 4.875% and are guaranteed by substantially all of the Company's domestic subsidiaries. The net proceeds, after deducting debt issuance costs, totaled approximately \$418 million.

During March 2013, a subsidiary of the Company discharged, in accordance with the indenture, all 300 million of the 6.875% senior notes due 2017.

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

The Company assesses its capital raising and refinancing needs on an ongoing basis and may enter into additional credit facilities and seek to issue equity and/or debt securities in the domestic and international capital markets if market conditions are favorable. Also, depending

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

on market conditions, the Company may elect to repurchase portions of its debt securities in the open market.

The Company has a 240 million European accounts receivable securitization program, which extends through September 2016, subject to annual renewal of backup credit lines. Information related to the Company's accounts receivable securitization program is as follows:

|  | <b>March 31,<br/>2013</b> | <b>December 31,<br/>2012</b> | <b>March 31,<br/>2012</b> |
|--|---------------------------|------------------------------|---------------------------|
| Balance (included in short-term loans) | \$ 241                    | \$ 264                       | \$ 276                    |
| Weighted average interest rate         | 1.38%                     | 1.33%                        | 1.42%                     |

*Cash Flows*

Free cash flow was \$(228) million for the first three months of 2013 compared to \$(167) million for the first three months of 2012. The Company defines free cash flow as cash provided by continuing operating activities less additions to property, plant and equipment from continuing operations. Free cash flow does not conform to U.S. GAAP and should not be construed as an alternative to the cash flow measures reported in accordance with U.S. GAAP. The Company uses free cash flow for internal reporting, forecasting and budgeting and believes this information allows the board of directors, management, investors and analysts to better understand the Company's financial performance. Free cash flow for the three months ended March 31, 2013 and 2012 is calculated as follows:

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| Cash utilized in continuing operating activities | \$ (134)    | \$ (94)     |
| Additions to property, plant and equipment       | (94)        | (73)        |
| Free cash flow                                   | \$ (228)    | \$ (167)    |

*Operating activities:* Cash utilized in continuing operating activities was \$134 million for the three months ended March 31, 2013, compared with \$94 million for the three months ended March 31, 2012. The increase in cash utilized in continuing operating activities was primarily due to an increase in working capital of \$301 million in 2013 compared to \$275 million in 2012. The larger increase in working capital during 2013 was mainly due to an increase in accounts receivable in the first quarter of 2013, partially offset by a smaller increase in inventories compared to the prior year. The increase in accounts receivable was partially due to delayed payments from customers caused by the current quarter ending on a holiday weekend. The smaller increase in inventories was driven by the Company's decision to lower production volumes in the first quarter of 2013 in order to smooth out production over the course of the year. The increase in cash utilized in continuing operating activities was also due to lower earnings and an increase in cash paid for restructuring activities of \$4 million, partially offset by a decrease in pension plan contributions of \$10 million and a decrease in asbestos-related payments of \$13 million.

*Investing activities:* Cash utilized in investing activities was \$94 million for the three months ended March 31, 2013 compared to \$67 million for the three months ended March 31, 2012.



Capital spending for property, plant and equipment was \$94 million during the current year and \$73 million during the prior year. The increase in capital spending in 2013 was primarily due to the large amount of capital projects completed during the fourth quarter of 2012 that were paid for during the first quarter of 2013. Cash utilized in investing activities in 2012 included \$5 million for the final payment related to an acquisition in China in 2010. During the first quarter of 2012, the Company also received \$11 million from the Chinese government as partial compensation for the land in China that the Company was required to return to the government.

*Financing activities:* Cash provided by financing activities was \$159 million for the three months ended March 31, 2013 compared to \$45 million for the three months ended March 31, 2012. Financing activities in 2013 included additions to long-term debt of \$639 million, primarily related to the issuance of the 330 million senior notes due 2021, partially offset by repayments of long-term debt of \$483 million, primarily related to the discharge of the 300 million senior notes due 2017. Financing activities in 2012 included additions to long-term debt of \$119 million, partially offset by repayments of long-term debt of \$62 million and short-term loans of \$20 million.

The Company anticipates that cash flows from its operations and from utilization of credit available under the Agreement will be sufficient to fund its operating and seasonal working capital needs, debt service and other obligations on a short-term (twelve-months) and long-term basis. Based on the Company's expectations regarding future payments for lawsuits and claims and also based on the Company's expected operating cash flow, the Company believes that the payment of any deferred amounts of previously settled or otherwise determined lawsuits and claims, and the resolution of presently pending and anticipated future lawsuits and claims associated with asbestos, will not have a material adverse effect upon the Company's liquidity on a short-term or long-term basis.

### **Critical Accounting Estimates**

The Company's analysis and discussion of its financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The Company evaluates these estimates and assumptions on an ongoing basis. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances at the time the financial statements are issued. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.

The impact of, and any associated risks related to, estimates and assumptions are discussed within Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to the Condensed Consolidated Financial Statements, if applicable, where estimates and assumptions affect the Company's reported and expected financial results.

There have been no other material changes in critical accounting estimates at March 31, 2013 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

### **Forward Looking Statements**

This document contains forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Forward looking statements reflect the Company's current expectations and projections about future events at the time, and thus involve uncertainty and risk. The words believe, expect, anticipate, will, could, would, should, may, plan, estimate, predict, potential, continue, and the negatives of these words and other similar expressions generally identify forward looking statements. It is possible the Company's future financial performance may differ from expectations due to a variety of factors including, but not limited to the following: (1) foreign currency fluctuations relative to the U.S. dollar, specifically the Euro, Brazilian real and Australian dollar, (2) changes in capital availability or cost, including interest rate fluctuations and the ability of the Company to refinance debt at favorable terms, (3) the general political, economic and competitive conditions in markets and countries where the Company has operations, including uncertainties related to the economic conditions in Europe and Australia, disruptions in capital markets, disruptions in the supply chain, competitive pricing pressures, inflation or deflation, and changes in tax rates and laws, (4) consumer preferences for alternative forms of packaging, (5) cost and availability of raw materials, labor, energy and transportation, (6) the Company's ability to manage its cost structure, including its success in implementing restructuring plans and achieving cost savings, (7) consolidation among competitors and customers, (8) the ability of the Company to acquire businesses and expand plants, integrate operations of acquired businesses and achieve expected synergies, (9) unanticipated expenditures with respect to environmental, safety and health laws, (10) the Company's ability to further develop its sales, marketing and product development capabilities, and (11) the timing and occurrence of events which are beyond the control of the Company, including any expropriation of the Company's operations, floods and other natural disasters, events related to asbestos-related claims, and the other risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 and any subsequently filed Quarterly Report on Form 10-Q. It is not possible to foresee or identify all such factors. Any forward looking statements in this document are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. Forward looking statements are not a guarantee of future performance and actual results or developments may differ materially from expectations. While the Company continually reviews trends and uncertainties affecting the Company's results of operations and financial condition, the Company does not assume any obligation to update or supplement any particular forward looking statements contained in this document.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk.**

There have been no material changes in market risk at March 31, 2013 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 4. Controls and Procedures.**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, the Company has investments in certain unconsolidated entities. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those maintained with respect to its consolidated subsidiaries.

As required by Rule 13a-15(b) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2013.

Management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2012. As required by Rule 13a-15(d) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of any change in the Company's internal controls over financial reporting that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company is undertaking the phased implementation of an Enterprise Resource Planning software system. The phased implementation is planned to commence in the South America segment during 2013. The Company believes it is maintaining and monitoring appropriate internal controls during the implementation period and further believes that its internal control environment will be enhanced as a result of this implementation. There have been no other changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II OTHER INFORMATION

**Item 1. Legal Proceedings.**

For further information on legal proceedings, see Note 8 to the Condensed Consolidated Financial Statements, Contingencies, that is included in Part I of this Report and is incorporated herein by reference.

**Item 1A. Risk Factors.**

There have been no material changes in risk factors at March 31, 2013 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 6. Exhibits.**

|               |  |
|---------------|--|
| Exhibit 12    | Computation of Ratio of Earnings to Fixed Charges.   |
| Exhibit 31.1  | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| Exhibit 31.2  | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| Exhibit 32.1* | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.   |
| Exhibit 32.2* | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.   |
| Exhibit 101   | Financial statements from the quarterly report on Form 10-Q of Owens-Illinois, Inc. for the quarter ended March 31, 2013, formatted in XBRL: (i) the Condensed Consolidated Results of Operations, (ii) the Condensed Consolidated Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements. |

---

\* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OWENS-ILLINOIS, INC.

|      |                |    |   |
|------|----------------|----|---|
| Date | April 24, 2013 | By | /s/ Stephen P. Bramlage, Jr.<br>Stephen P. Bramlage, Jr.<br>Senior Vice President and Chief Financial<br>Officer (Principal Financial Officer; Principal<br>Accounting Officer) |
|------|----------------|----|---|

INDEX TO EXHIBITS

**Exhibits**

- 12 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32.2\* Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.
- 101 Financial statements from the quarterly report on Form 10-Q of Owens-Illinois, Inc. for the quarter ended March 31, 2013, formatted in XBRL: (i) the Condensed Consolidated Results of Operations, (ii) the Condensed Consolidated Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

---

\* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.